

**City of Durham**  
**FY 2013-14 Budget Development Guidelines**  
**April 4, 2013**  
**INTRODUCTION**

Based on information given to the General Assembly by Barry Boardman, Fiscal Research, on February 5<sup>th</sup> the State downgraded the FY2012-13 revenue forecast base growth from 6.2% to 4.4%. This included a reduction of sales tax growth from 6.2% to 3.7%, personal income tax from 5.4% to 4.7% and corporate income tax from 11.6% to 4.1%. The long-term average revenue growth was reduced to 3.9%. Currently the State's savings reserve is well below the statutory target of 8% which limits its ability to close a budget gap with savings. The state has also continued to use non-recurring funds to meet recurring budget requirements. Potential pressures for the State's FY13-15 budget include salaries and benefits (increased retirement and state health plan costs and salary increases for state employees), Education (restoring non-recurring cuts to the Public Schools, the Excellent Public Schools Act, and financial aid), Health and Human Resources (mental health, Affordable Care Act, Medicaid) and other areas (Clean Water Trust Fund, fiscal Cliff/Sequestration, repairs and renovations, savings reserves and unemployment insurance reform).

At this point there is no indication that the State plans to reduce any revenues currently shared with municipalities. For the City of Durham, State Shared Revenues account for 12% (\$20.4M) of total General Fund revenues. Those revenue sources include utility franchise taxes (electricity, telecommunications, piped natural gas and video programming), gasoline tax (Powell Bill), and beer and wine Tax. The two largest sources of revenue to support General Fund operations are local property taxes and local sales taxes representing 78% (\$137.8M) of the fund's budget. The Debt Service Fund, which accounts for the City's General Fund debt service obligations, is also supported by local property taxes. The property tax appropriation for the debt reserve fund is \$29.7 million for FY2012-13. Residential real estate and personal property taxes, sales tax and overall revenues are projected to grow slightly for FY2013-14. As a result, increases in City spending must continue to be limited in FY2013-14. Accordingly, the City Council directs the City Manager to develop a budget for FY2013-14 that limits increases to what is needed to accommodate population growth and cost factors, and clearly identifies funding requirements driven by State and/or federal mandates and major City initiatives. The City Council recognizes that balancing the FY2013-14 budget may require additional reductions or elimination of services based on service/program prioritization, and directs that the City Manager begin to review and evaluate where the City should focus such adjustments consistent with the City Council's priorities.

The City must use a strategic approach to balancing the budget by assessing revenue enhancement opportunities and cost containment. The FY2013-14 Budget must determine the required investment to preserve priority programs and services and support the City's Strategic Plan.

To continue to meet priority service needs of Durham residents while recognizing the slow economic return, the City Manager shall use the following **Budget Development Guidelines to prepare the FY2013-14 Proposed Budget.**

## **REVENUES**

- General Fund **savings balance** will not be projected to fall below **12%** at the end of **FY2013-14**. Projected General Fund balance over 12% may be considered for one-time (non-recurring) expenditures.
- Funding of the Downtown **Business Improvement District (BID)** will be continued at a tax rate of **7 cents** (per \$100 assessed value) on the property within the boundaries of the BID.
- Funding of the **Dedicated Housing Fund** as a Special Revenue Fund at **1 cent** (per \$100 assessed value), the same as appropriated in the Community Development departmental budget for FY12-13.
- **Non-recurring funds** will not be directed toward recurring uses.
- **Fees adjustments** will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.
- Proposed **water and sewer rate** increases will not exceed an average of **2.5%** for FY2013-14.
- Proposed **stormwater rate** increases will not exceed **8.5%** for National Pollution Discharge Elimination System (NPDES) required monitoring, maintenance and watershed plan implementation.
- Other **revenue adjustments** will be considered to balance the budget.

## **DEBT**

- Property tax revenue in the **Debt Service Fund** less transfers to enterprise funds to pay debt service should not exceed **15%** of total expected non-dedicated property tax collections plus all other General Fund revenues.

## **EXPENDITURES**

To balance expenditures against forecasted revenue reductions, the City Manager shall continue focused discussions with City departments regarding program and service priorities, possible areas for elimination, reduction, reorganization, and/or alternative service delivery models that address the performance and efficiency of City programs.

- Program or service level reductions shall be considered to balance the budget.
  - Program and service level prioritization shall be established within each department.
  - Program and service reductions may result in elimination of authorized positions, reductions in force or employee furloughs within departments, as appropriate, based on service/demand.
- **City employees** are at the core of City services. Attracting and retaining a competent, high quality workforce is essential even in an environment of high unemployment. We must commit to consider employee compensation adjustments as a priority therefore, the following **pay and benefit** components will be considered:
    - Pay for Performance (P4P) pay plan for General employees (up to 3% average)
    - Pay Plan for sworn Police and Fire employees (3%-5%)
    - Supplemental Retirement -401K (remain at 4.5%)
    - Medical and Dental insurance – the priority will be to limit increases for the City and employees
    - Local Government Retirement contributions – the State has informed the City that these mandatory rates will increase from 6.74% to 7.07% for general employees and from 6.77% to 7.28% for law enforcement personnel.
  - Priority will be given to those requests that support the **strategic plan initiatives**.
  - **Deferred maintenance** will be funded up to **\$600,000**.
  - **Street resurfacing funding** for paving and maintenance services of streets and sidewalks, and will be funded up to **\$1,000,000**.
  - Funding for **capital projects** will be provided in the form of pay-as-go funding at a minimum of **\$500,000**.
  - **Public transit services** should be evaluated for additional cost savings and revenue enhancements to balance the fund.
  - **Fleet** funding will be maintained to replace vehicles with costs not to exceed **\$3,000,000** for the General Fund.
  - **New positions** will only be funded for a partial year when warranted by the timing of the actual operational impact on the budget.